

**REPORT OF THE AUDIT OF THE  
WHITLEY COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF**

**For The Year Ended  
December 31, 2003**

The Auditor of Public Accounts has completed the Whitley County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

#### **Financial Condition:**

Excess fees decreased by \$4,369 from the prior year, resulting in excess fees of \$6,014 as of December 31, 2003. Revenues increased by \$254,684 from the prior year and expenditures increased by \$259,053.

#### **Report Comments:**

- The Sheriff Should Present His Annual Settlement To The Fiscal Court
- The Sheriff Should Publish His Annual Financial Statement
- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Patrick, Whitley County Judge/Executive  
The Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Whitley County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Michael Patrick, County Judge/Executive  
The Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Present His Annual Settlement To The Fiscal Court
- The Sheriff Should Publish His Annual Financial Statement
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Whitley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2004



WHITLEY COUNTY  
LAWRENCE HODGE, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Contract		\$	3,895
State - Kentucky Law Enforcement Foundation Program Fund			25,476
State Fees For Services:			
Sheriff Security Service	\$	13,706	
Fines and Fees Collected		<u>25,713</u>	39,419
Fiscal Court			116,080
County Clerk - Delinquent Taxes			5,764
Commission On Taxes Collected			222,698
Fees Collected For Services:			
Auto Inspections	\$	17,355	
Accident and Police Reports		1,229	
Serving Papers		22,885	
Carrying Concealed Deadly Weapon Permits		<u>10,265</u>	51,734
Other:			
Advertising Fees	\$	4,415	
Election Commission		600	
Insurance Claims		8,125	
Reimbursement for School Deputy		26,156	
Sheriff's 10% Add-on Fees		20,964	
Transporting Prisoners Reimbursement		19,544	
Miscellaneous		<u>17,059</u>	96,863
Interest Earned			576
Borrowed Money:			
State Advancement	\$	115,910	
Bank Notes		<u>100,000</u>	<u>215,910</u>
Total Revenues			<u>\$ 778,415</u>

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY  
 LAWRENCE HODGE, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2003  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	324,351
Employee Benefits-		
Employer's Share Retirement - KLEFPF		925
Materials and Supplies-		
Gun Supplies		8,268
Office Materials and Supplies		15,407
Radio and Camera Supplies		9,111
Uniforms		14,300
Auto Expense-		
Gasoline		26,882
Maintenance and Repairs		47,097
Other Charges-		
Advertising		316
Bond		812
Carrying Concealed Deadly Weapon Permits		6,555
Cellular Telephones		3,556
Dues		663
Election Commission		600
Identification Kits		4,108
Postage		8,626
Miscellaneous		3,887
Capital Outlay-		
Office Equipment		1,196
Vehicles		11,200
Debt Service:		
State Advancement		115,910
Notes		100,000
Interest		1,842
		<hr/>
Total Expenditures	\$	<hr/> 705,612

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY  
LAWRENCE HODGE, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2003  
(Continued)

Net Revenues	\$ 72,803
Less: Statutory Maximum	<u>66,030</u>
Excess Fees	\$ 6,773
Less: Training Incentive Benefit	<u>759</u>
Excess Fees Due County for 2003	<u><u>\$ 6,014</u></u>

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2003  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months of the year and 18.51 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Federal Contract

The Sheriff received \$3,895 from the U.S. Department of Agriculture for providing forest patrol service at the Daniel Boone National Forest.

Note 5. Drug and Alcohol Fund

During 2003, the Sheriff maintained a drug and alcohol fund. This fund was established in February 2003. Receipts for 2003 totaled \$46,272 and disbursements totaled \$20,902. As of December 31, 2003, the balance in the Drug and Alcohol Fund was \$25,370. This fund is not to be included in excess fees due to its intended purpose.

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## COMMENTS AND RECOMMENDATIONS





WHITLEY COUNTY  
LAWRENCE HODGE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Present His Annual Settlement To The Fiscal Court

KRS 134.310 requires the Sheriff to present an annual settlement to the fiscal court. As of the end of fieldwork, no settlement had been presented to the fiscal court. We recommend the Sheriff present an annual financial settlement to the fiscal court in the future.

*County Sheriff's Response:*

*Will try to correct.*

The Sheriff Should Publish His Annual Financial Statement

The Sheriff did not publish his annual financial statement. KRS 424.220(6) requires the Sheriff to publish his financial statement within 60 days after the close of the year. We recommend the Sheriff publish his annual financial statement as required by KRS 424.220(6).

*County Sheriff's Response:*

*Will try to correct.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to help offset this internal control weakness.

- The Sheriff Should Periodically Recount And Deposit Cash.
- The Sheriff, Or Someone Independent Of The Receipt Or Disbursement Of Cash Should Prepare Bank Reconciliations Monthly.
- All Checks Should Require Dual Signatures With One Being The Sheriff.

*County Sheriff's Response:*

*I take an active role in daily operations.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Former Sheriff Did Not Make Settlement With The Fiscal Court
- The Former Sheriff Did Not Publish Annual Financial Statements

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Patrick, Whitley County Judge/Executive  
The Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Whitley County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated August 31, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Present His Annual Settlement To The Fiscal Court
- The Sheriff Should Publish His Annual Financial Statement



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2004

